

~~CONFIDENTIAL~~THE DIAMOND INDUSTRY IN THE USSR
June 1958

Since 1956, the USSR has been speaking in glowing terms of the discovery of diamond deposits in Yakutiya, northeast of Lake Baikal in Eastern Siberia. According to Soviet claims, several dozen or more kimberlite pipes* have been discovered as well as a large number of placer deposits. Many of these placer deposits are being worked at the present time but actual output has not been announced. The majority of diamonds being recovered at present are of the industrial variety of which bort constitutes a fairly large part; gem grade stones account for only a small percentage. Information on the quantity of the more essential types of industrial diamonds such as tool stones, hardness testers, and die stones, has not been reported. The degree of self-sufficiency of the USSR in industrial diamonds from the Yakutiya fields will depend on the quantities of these essential types recovered.

Little has been said about reserves in quantitative terms. Claims have been limited to statements that reserves amount to millions of carats and are enough to satisfy Soviet requirements. It has also been stated that the supply will be sufficient to increase by many times the use of diamonds in industry. This suggests that as diamonds become available from domestic sources the Soviet Union will increase its consumption to conform more closely to the level of other highly industrialized nations. Evidence suggests that Soviet consumption has never approached this level.

* A pipe is a vertical, cylindrical mass of volcanic agglomerate. Kimberlite is a volcanic rock which may contain diamonds.

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While placer deposits may be capable of supplying large quantities of diamonds for some years, the future of the Soviet diamond industry will depend upon the diamond content of the kimberlite pipes. The contents of the pipes, only the upper or near surfaces of which probably have been investigated thus far, are reported as ranging from 4 or more carats per ton of ore in some pipes—an average comparable to many African producers—to only .05 to .08 carats per ton in others.

The tremendous investment that apparently has been made in Yakutiya, including that for both prospecting and preparations for actual mining, indicates the sincerity of the Soviet belief in this area as a source of industrial diamonds. The more enthusiastic claims, however --such as those indicating that Yakutian deposits are more valuable than those of Africa--should be viewed with reservation until the USSR presents more concrete evidence as to its self-sufficiency.

The Soviet publication Voprosy Ekonomiki No. 6, 1957 stated that a highly industrialized nation such as the US consumes one carat of industrial diamonds per 10 tons of crude steel output and that on this basis the USSR would require 6,000,000 carats of industrial stones in 1960. It is doubtful, however, that the factor of 1 carat per 10 tons of crude steel is valid for the USSR. Soviet steel products are seldom finished to the degree they are in the US, and since Soviet manufacturers apparently are not as concerned with the product's appearance as US manufacturers, there would be little incentive for the USSR to

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change its practice in this respect. A second factor which will tend to keep diamond requirements lower than US requirements, is that the USSR has developed substitutes, many of which are apparently quite efficient. It is questionable whether these would be completely abandoned unless a plentiful supply of diamonds were assured almost indefinitely.

An estimate of Soviet requirements at one-half those of the US or one carat per 20 tons of crude steel output seems reasonable in light of these conditions. Assuming this ratio is roughly correct Soviet requirements would be as follows: 1957, 2,550,000 carats; 1960, 2,990,000 carats; and 1965, 4,000,000 carats.

The USSR at present is almost entirely dependent upon foreign sources of supply for its industrial diamond requirements. Inasmuch as the major diamond producing countries, with the exception of Ghana, are members of ODCOM which has embargoed diamond sales to the Bloc and because the Diamond Trust also has forbidden its members to sell to the Soviets, the USSR's diamond supply is primarily from illicit sources. Diamonds have been imported through illicit channels from the traditional diamond processing countries - Belgium, the Netherlands, and Switzerland - as well as from the African sources of South Africa, the Belgian Congo, Sierra Leone, Tanganyika, Ghana, and Southern Rhodesia. Many of these imports were by way of Liberia and certain Middle East countries. Small amounts may also have been obtained from South American, particularly from Brazil.

The diamond fields of Sierra Leone are probably even more important than South Africa or the Belgian Congo as a source of supply for the USSR.

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Here diamonds occur very close to the surface and almost any man with a shovel is a potential diamond miner. In 1957, as in previous years, thousands of unlicensed native diggers were reported to be active, despite concentrated efforts by the government to curtail their operations. The output from these illicit operations has been reported to equal the output from all legal mining in the country. This suggests that a total of from 600,000 to 900,000 carats (60% to 66% of which are reported to be industrials) may be finding their way into illicit channels each year. The government's official estimate of the value of stones being smuggled is £ 4,000,000 a year; other sources estimate it to be as high as £ 13,000,000 a year. In view of the high prices reportedly being offered by the USSR for industrial stones—from two to three times world market prices—it is not unlikely that a large part of these diamonds were obtained eventually by the USSR.

Another source of supply for the USSR has been in the form of diamond tools. Diamond drill bits, for instance, were reported to have been sold to the USSR by Sweden and it is not unlikely that some smuggling has taken place. Quantities, however, were apparently not enough to satisfy demand; reports emanating from the USSR have referred specifically to diamond tools and to bits as items in short supply. The extent of smuggling or unreported sales of such tools is very difficult to assess and their contribution to Soviet requirements cannot be evaluated with the information now available.

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